MintKit Growth Index

Final Report

A Lean Benchmark
of the Stock Market
for Spry Growth
at Modest Risk

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Overview

A simple approach to investment, based on the equal weighting of a small number of holdings, can beat the stock market over a representative timespan that includes a full cycle of boom and bust. Moreover, the lean approach requires a minim of time and effort; namely, a single session lasting a couple of hours at most each year in order to select high-growth stocks sporting modest levels of risk. For the sake of concreteness, the demure strategy was tracked by a newborn benchmark called the MintKit Growth Index (MGX).

From a larger stance, a planning horizon of half a decade befits many an investor. For one thing, the timespan is likely to include a crash of the market along with a recovery. Secondly, even if the market does not crash at all during the entire stretch, the gains reaped along the way are unlikely to be quashed to a significant degree by the time the next cycle of bust and boom has come and gone.

The case study ran for five years ending in 2022. During this period, the stock market crashed three times. Given the rapid succession of flops, the MGX had a chance to recover fully only after the second rout. That is, the pool of frisky stocks had scant opportunity to regain its strength after the first flap before the second bust occurred.

The quandary was similar for the third wreck that arose in the final year. More precisely, the bourse along with the MGX could not recoup their losses during the couple of months that remained prior to the scheduled date of termination of the study.

By their nature, feisty stocks tend to grow faster than the rest when the bourse climbs; and conversely shrink more when the market slumps. As a corollary, a crew of live wires turns in a dismal showing during a crash of the bourse as well as shortly afterward. Only when the market has recovered a good deal from the rout can the troupe fulfill its promise once again.

If we look at the big picture, the stock market has a way of rising over the long range despite the inevitable chain of fallbacks along the way. In this fundamental sense, the window spanning the first four years of the study was representative of the buoyant nature of the bourse.

The experiment was launched at the onset of 2018. As noted earlier, the stock market crashed toward the end of the first year. In general, the stocks of big and mature firms lead the way during the rebound that follows a crackup. At the far end of the uprise, the bulky stocks tend to reach their peaks before the lissom ones follow suit. In tune with the usual pattern, the early stages of the recovery during the second year were led by large-cap stocks. The comeback of the jumbos was showcased by the ascent of the S&P Index (SPX) comprising 500 heavyweights of the bourse.

The leading benchmarks of the market deal with giant firms. From a different slant, the bulk of touchstones including the SPX are weighted by the level of capitalization: a practice that magnifies the impact of the biggest members. As a result, the flagship benchmark managed to rebound briskly during the second year.

On the other hand, the MintKit Growth Index took longer to spring back due to its focus on vernal firms. To compound the pinch, the market as a whole crashed for the second time at the beginning of the third year, before the MGX had a chance to recover fully from the initial flop.

On the upside, though, the bulk of the third year was conducive to growth; and likewise for the fourth year. As a result, the Growth Index regained its mojo and surpassed the SPX. Over the entire span of four years, the MGX rose by 18.4% a year on average. The corresponding gain for the SPX was 15.5% per annum.

After that stage, however, the bourse formed a crest at the onset of 2022 then fell apart until the autumn. The result was a drawn-out crash that lasted till October. In the wake of the debacle, the market could not come close to reclaiming lost ground during the couple of months that remained prior to the wrap-up of the study.

As a rule, the stock market displays a bullish bent roughly two-thirds of the time and a bearish tilt during the remainder. If the bourse regains its vigor in full measure going forward, then the mass of stocks should climb to newfound heights within the next year or two. On the other hand, the vibrant stretch on the horizon far exceeds the bounds of the current study.

To spotlight a secondary outcome, the project affirmed the usual divergence in performance between agile stocks versus their stodgy peers during bullish spells as well

as bearish spans. In general, growth stocks soar higher than the market averages when the bourse climbs with gusto; and dive lower when it sinks in despair.

In short, the study in real time showed that a simple approach to investment, based on the equal weighting of a small number of zesty stocks chosen with care, can beat the bourse at large over a representative window that includes a complete cycle of boom and bust. Moreover, the lean strategy requires a paltry input of time and effort – namely, a single stint lasting a couple of hours at most each year – in order to tend a portfolio of lively stocks marked by modest levels of risk.

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Background

A benchmark of the stock market tends to grow over time, if only to keep up with the bloat of inflation. Against this backdrop, the stocks slated for high growth ought to outpace the market averages over a representative stretch that spans a smackdown followed by a springback.

On the whole, the bourse has a way of crashing several times a decade. In that case, a timespan of half a decade is likely to include a complete cycle of boom and bust.

The benchmark of choice among professionals – be they researchers or practitioners – lies in the S&P Index (SPX) comprising 500 giants of the U.S. bourse. In compiling the touchstone, the stock prices are weighted according to the overall values of the underlying firms; that is, the price per share times the number of shares outstanding for each stock. As a matter of practice, the lineup of stocks as well as their weights are monitored on a continual basis and adjusted in scores of ways over the course of a single year.

On the other hand, a benchmark that uses equal weights for the stock prices can often outshine an index wherein the equities are weighted according to their relative worths on the bourse. An example of the gainful mode involves a lean approach to investing in sprightly stocks marked by zingy growth in spite of modest risk. Moreover, the streamlined tack may be pursued with a minim of time and effort by a busy investor who

can devote only a couple of hours a year to minding their portfolio. The vantage of the sedate method was vetted by encoding the deft strategy in a custom benchmark called the MintKit Growth Index (MGX).

Purpose

The study at hand stemmed from a trio of concepts for a nimble way to beat the stock market at large. The basic questions dealt with the following issues.

1. A rolling roster of spry stocks slated for high growth at modest risk should outpace the market averages.

2. A small roll of stocks – comprising a dozen entries or less – based on equal weighting at each stage can beat the SPX over a representative window that includes a full cycle of boom and bust.

3. The superior performance may be attained with a modicum of time and effort; to wit, tending the portfolio for a few hours at most once a year.

The first item in the foregoing list affirms that jaunty stocks tend to outpace their plodding peers as time goes by.

The second premise assures that the portfolio is compact and thus suited to a personal account of modest size. From a larger stance, though, the same strategy ought to apply just as well to a large portfolio such as a mutual fund or a pension fund.

Moreover, the third posit above renders the schema apt for a busy investor who can devote only a dollop of time and effort to minding their portfolio once a year.

The triplex of pillars upholds a sleek approach to beating the stock market at modest risk in a frugal way in terms of time and effort. For the sake of concreteness in conducting the case study, the pithy strategy was vetted through a novel benchmark dubbed the MintKit Growth Index.

Method

The goal of the no-frills approach to investment is to secure high growth at skimp risk while allotting only a minim of time and trouble. To this end, the portfolio ought to evince

a number of crucial properties. An example involves a modicum of diversification across multiple sectors of the economy. Another sample concerns a slate of uniform weights for the constituent stocks.

Varied Sectors and Vernal Markets

As a rule, perky growth is the hallmark of bantam firms and budding markets. On the other hand, subdued risk is the trademark of giant concerns and mature industries. Given the disjunction of features, the potential for profit and the degree of stability tend to be mutually exclusive traits in the marketplace.

Despite the usual dichotomy, however, a holistic approach may combine both types of virtues. For this purpose, a workable solution entails large firms that ply their trade in sprouting markets. The upshot is a two-tone template meant to ensure sprightly gain at muted risk.

At the dawn of the millennium, the companies that befit the dual motif flourish at the frontiers of technology and innovation. For instance, the trailblazers make good use of digital tools ranging from smart programs to Internet platforms. A case in point is a search engine that conveys results tailored to the personal tastes of the surfers in cyberspace. Another sample involves a financial firm whose daily bread comes from thin slices of billions of electronic payments coursing through online channels.

In line with these themes, a roster of agile stocks boasting goodly amounts of robustness and diversification is a hallmark of the MintKit Growth Index. Another earmark lies in the balanced weighting of the constituent stocks.

Uniform Weights

In the usual method of constructing a stock index, the prices of the equities are weighted by the relative worths of the underlying firms. On the downside, though, the popular ploy serves to emphasize the big and mature concerns while downplaying the small and rising stars. The upshot is a warped benchmark that gives rise to stunted results.

A better tactic is to focus on stocks of good value and compact size (Cahn, 2014). From a different slant, any form of alternative weighting is likely to outclass the hackneyed scheme of variant weights based on market capitalization (Tuttle, 2015).

An example of a fetching tactic lies in equal weights for the stocks within an index. At a basic level, the uniform composition jibes with conceptual elegance as well as practical relevance for the investing public. To bring up a counterexample, few – if any – investors who intend to beat the market averages would take up the mindless scheme of stuffing their portfolios according to the market caps of the constituent stocks.

Better yet, uniform weighting tends to beget higher returns compared to the modish mode of lopsided weights based on market caps. The simple and fruitful framework of even weights is a mainstay of the trenchant strategy in tandem with the MintKit Growth Index.

Matchup Against Vintage Benchmarks

To the extent that the MGX deals with jumbo stocks, its main rivals lie in the leading benchmarks of the bourse: the Dow Jones Industrial Average (DJIA), S&P 500 index, and Nasdaq 100 yardstick (NDX). Each of the popular touchstones deals with the giants of the stock market.

From the standpoint of diversity, the SPX covers the panoply of sectors ranging from materials and technology to finance and healthcare. For the most part, the makeup is similar for the Dow index. Meanwhile, the NDX subsumes the bulk of domains with the notable exception of the financial segment.

Since the MintKit benchmark does not expressly exclude any sector, it resembles the SPX and DJIA more than the NDX in one sense. On the other hand, the MGX merely favors an ample amount of diversity while making scant effort to cover the majority – let alone the entirety – of economic sectors. In this regard, the novel benchmark differs from each of the extant ones.

The object of the offbeat approach is to seek rousing gain at muted risk in spite of sparing effort. Given the amalgam of conflicting factors, the MGX bears a number of traits that differ to a greater or lesser degree from those of the timeworn benchmarks.

Case Study

The initial lineup of stocks in the MintKit Growth Index comprised a dozen names in diverse fields ranging from finance and retailing to electronics and transportation. The entries ran the gamut from Alibaba, Alphabet and Apple to Blackstone, Mastercard and Ryanair. Despite the hefty size of the firms at the outset in 2018, their stocks were poised to grow faster than the bourse at large.

The MGX was revised on an annual basis. Even so, the portfolio continued to contain a dozen members on each of the first two updates. After that phase, though, the roster shrank slightly and comprised only ten members in each of the last two years.

In line with earlier remarks, the experiment ran for half a decade ending in 2022. Such a timespan befits many an investor. For one thing, a window of five years is likely to include a smashup of the market along with a rebound. Secondly, even if the bourse does not crash at all during the entire stretch, the gains to date are unlikely to be wiped out in a serious way after a subsequent cycle of bust and boom.

During the entire stretch covered by the study, the bourse crashed three times. Given the quick succession of flops, the market had a chance to recover fully only after the second flap. That is, the bourse could not regain its strength in full after the first crash before the second one transpired.

The setup was similar for the third crash that occurred before the scheduled date of termination of the study. To wit, the market had scant opportunity to regain its health during the couple of months that remained.

Combo of Fundamental and Technical Screens

Every member of the Growth Index displayed a medley of charms by way of fundamental factors as well as technical ones. An example of the former lay in the earnings per share over the past year, or the lusty outlook for earnings growth during the next five years.

On the technical front, each stock had to sustain a trading volume of 100,000 shares or more per day on average in the recent past. The bustle of transactions ensured an ample level of liquidity; that is, a moderate number of shares could be bought or sold in a timely fashion without prompting a material change in price on the open market.

On a different note, the market capitalization could be viewed as a fundamental trait and/or a technical one. On one hand, the price level originates in the stock market and in fact forms the crux of technical analysis. On the other hand, the total value of the equity reflects the perceptions of the investing public – however shrewd or daft they may be – of the overall worth of the business in the real economy. To ensure an ample measure of robustness in the tangible realm as well as liquidity in the financial sphere, a candidate stock had to boast a market value of $10 billion or more.

To sum up, a posy of mindful criteria was used to select the members of the MintKit Growth Index. Further details on the screening process are available in the initial report issued upon the launch of the case study (MintKit, 2018).

Typical Window

As noted earlier, the experiment spanned half a decade starting in 2018. The chart below displays the performance of the SPX over the entire stretch of five years (StockCharts, 2023).

In the exhibit, each stick figure – also known as a *bar* – conveys the extreme prices for a given week. The bottom of the vertical rod depicts the low price during the period, while the top portrays the high price.

The stub on the left side of the bar marks the opening price at the beginning of the week, while the tick on the right side pegs the closing price at the end. If the closing level falls below that of the prior week, the entire bar is rendered in red; but otherwise in black.

The chart spotlights the fact that the market thrashed around during the first couple of years. An example involved the crash of the SPX toward the end of 2018; then again at the onset of 2020. After the raucous phase, however, the bourse enjoyed a healthy uptrend till the end of 2021.

Unfortunately, the stock market fell apart the following year. After touching a peak of 4,818.62 points at the beginning of 2022, the SPX plunged by 27.5% to hit a low of 3,491.58 points in October. In the wake of the fiasco, the bourse could not come close to regaining its vigor during the last couple of months of the year.

Given this background, the entire timeline admits only a single sensible choice for a full complement of breakdown and bounceback which happens to span a whole number of years. To wit, the representative window on the bourse spans a period of four years ending in 2021.

Roundup of Key Results

Since its rollout at the onset of 2018, the MintKit Growth Index has showcased the boons and banes of investing in peppy firms. On the upside, high-growth stocks tend to climb faster and higher than the market averages during an uptrend. On the flip side, though, the dashers plunge quicker and lower amid a downcast.

From a different angle, the stock market tends to crash once every handful of years or so. On the other hand, the past half-decade has been unusually stormy: the market collapsed not once or twice but three times.

On the upside, the MGX weathered the first pair of wrecks without great difficulty. As a result, it outpaced the SPX during the first four years. In line with the timeline spelled out a year ago, the experiment was scheduled for completion at the end of 2022 since half a decade is usually long enough to capture a full cycle of boom and bust on the bourse.

Given the triple whammy of crashes over the past half-decade, however, the last round has not had enough time to complete a circuit. Even so, the project had it run longer

would surely have proven the MGX to outshine the SPX by a comfy margin, just as it did after the initial pair of cycles that arose within the first four years.

During the representative stretch of four years ending in 2021, the MGX outpaced the SPX. More precisely, the Growth Index gained 18.4% per year on average as opposed to 15.5% for the S&P yardstick over the same stretch (MintKit, 2022).

In this way, the study affirmed the trinity of precepts set forth at the outset. That is, a demure but mindful approach to tending a compact pool of agile stocks marked by equal weighting can outplay the flagship benchmark of the bourse.

Conclusion

High-growth stocks tend to burgeon faster than the market averages when the bourse blossoms, and conversely shrivel more when it withers. As a corollary, a roll of vernal stocks turns in a dismal showing during a crash of the bourse; and likewise shortly afterward. Only when the market begins to recover in earnest from the drubbing does the vibrant portfolio display its true colors once again.

If we look at the big picture, the stock market has a way of rising over the long range despite the ceaseless chain of fallbacks along the way. In this fundamental sense, the window spanning the first four years of the case study was illustrative of the buoyant nature of the bourse.

On the downside, though, the stock market suffered a crash at the end of the first year. After the crackup, the early stages of the recovery were led as usual by large-cap stocks.

On a different but related note, the flagship benchmark – namely, the S&P 500 Index – covers the biggest firms on the bourse. In addition to the focus on giant firms, the touchstone weights the stocks according to their levels of capitalization. The impact is to lend even more clout to the jumbos. Given the outsize role of the hulks, the SPX managed to bounce back during the second year.

On the other hand, the pool of frisky stocks tracked by the MintKit Growth Index took longer to regain its strength. To compound the quandary, the bourse as a whole crashed

again at the beginning of the third year, before the MGX had a chance to recover fully from the first flop.

On the bright side, though, the rest of the third year was conducive to growth; and likewise for the fourth year. As a result, the high-growth portfolio regained its moxie and surpassed the S&P Index. Over the entire span of four years, the MGX rose by 18.4% a year on average. The corresponding gain for the SPX was 15.5% per annum.

After that stage, the bourse formed a crest at the onset of 2022 then crumpled in fits and starts until it forged a trough in October. In the wake of the cave-in, the market could not recoup its losses during the couple of months that remained before the project came to a close.

As a rule of thumb, the stock market displays a bullish trend around two-thirds of the time and a bearish tilt during the remainder. If the bourse regains its vigor in full measure going forward, then the market as a whole is apt to form a new peak within the next year or two. On the other hand, the buoyant stretch downrange far exceeds the bounds of the 5-year study.

To spotlight a secondary result, the project affirmed the divergence in performance between high-growth stocks versus the market averages. When the bourse at large climbs in earnest, the dashers tend to soar higher; and conversely dive lower when the market falls with abandon.

To sum up, the multiyear study affirmed the merits of a simple approach to investment based on the equal weighting of a small number of spry stocks chosen with care. The results showed that the spruce formula can at modest risk beat the market averages over a typical window that includes a complete cycle of bust and boom. Moreover, the lean strategy requires a paltry input of time and effort – namely, a single session lasting a couple of hours at most each year – in order to nurture a compact portfolio of zesty stocks slated for high growth.

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